

**State Police Officers Council and the Iowa State Patrol Supervisors Association**

**Joint Statement to the Legislature's Public Retirement Systems Committee**

**November 9, 2009**

**HISTORY AND GENERAL INFORMATION REGARDING POR**

The Peace Officers Retirement System (POR, 97A) provides pension benefits for the peace officer members of the Department of Public Safety in the following divisions: Iowa Division of Criminal Investigation, Division of Narcotics Enforcement, Iowa State Patrol, and the State Fire Marshal's Office. The State Police Officers Council (SPOC) represents the non-supervisory, sworn officers in these divisions (approximately 511 active members). The Iowa State Patrol Supervisors Association (ISPSA) represents the supervisors (approximately 120 active members).

This pension system is similar to the Municipal Fire and Police Retirement System of Iowa (411) and in fact, Chapter 97A and Chapter 411 are often termed sister codes. The members of these systems are not covered by Social Security. The POR and 411 Systems also serve as the workers compensation/ disability systems for their members. This is in contrast to IPERS whose members are covered by Social Security and are covered by separate workers compensation and disability laws.

Those hired since 1986 contribute 1.45% for Medicare. The minimum years of service and age for service retirement are: 22 years of service and age 55. The service retirement benefit is 2.75% for each year of service up to 32 years of service. With 22 years of service the benefit is 60.5% and with 32 years of service, the benefit is 88%.

The POR Board and the State have the responsibility to set the State's normal contribution rate to maintain the actuarial soundness of the fund. The employee rate is set at 9.35% and the current employer rate is 21%. Current law prohibits increasing the employee's contribution rate unless there has been a statutory benefit enhancement (post 1995) along with a resulting increase that couldn't be absorbed within the contribution rates. Since 1995, all statutory benefit enhancements were absorbed by the rates, and there hasn't been a statutory benefit enhancement since 2000.

POR was well funded until the downturn in the markets affected this system in the early 2000s. This downturn in the markets, actuarial experience and other factors negatively affected the funded ratio of the system. Additionally, during this time no new officers were hired while officers continued to retire.

The POR Board is required by November 1 of each year to certify the State's normal contribution rate to meet actuarial soundness. As the funded ratio fell from 2002 until 2007, the State did not increase their contribution rate and fell short of their statutory obligation.

In 2002, the State Legislature mandated that the cities in the 411 System meet their statutory obligation to maintain actuarial soundness and to get their retirement system back on sound footing. During 2002-2007, the cities complied while the employee contribution rates were maintained at 9.35%. In 2002, the State Legislature should have required that the State, just like the cities, meet their statutory obligation to the POR system. Thus, from 2002 through 2007, the State did not meet its statutory obligation to ensure the actuarial soundness of the fund.

### **RECENT LEGISLATIVE ACTION**

In 2007, in order to address these concerns, and in the face of a \$100 million shortfall, the POR Board of Trustees adopted a recommendation (which was supported by SPOC) that provided a two pronged approach that would get the POR fund to a 90% funding level. The plan provided a state appropriation of \$5 million per year for 12 years coupled with a 2% annual increase in the state contribution rate to the system (capped at 27%) until the system was fully funded. The employee contribution rate would remain at 9.35%. The 2% increase in the state contribution rate per year for five years was approved by the Legislature and signed by the Governor. The second component was \$5 million state appropriation per year for 12 years, but the legislature did not enact this component.

In 2008, the employer contribution rate did rise by 2% to 19% and in 2009 the employer rate rose again to 21%. However, with the market downturn and the POR fund going into the crisis already underfunded, things have gotten worse for the POR system. According to the July 1, 2009 actuarial valuation report, the POR is now facing a \$133 million shortfall and the funded ratio is 69%. Additionally, even factoring in an increase in the employer rates of up to 27% per the statute enacted two years ago, by the year 2011, the funded ratio of the POR fund drops to 56% and continues to decline (see chart). Some experts believe that a funded ratio below 80% requires action.

In conclusion, we would like the interim committee to recognize the gravity of the POR situation. We look forward to working with policy makers and the POR Board to assure that adequate resources are provided to the POR system so that this state's sworn police officers have a secure, well-funded retirement fund to look forward to, after many years of dedicated service to the State of Iowa.

